

Giving up homeownership: a qualitative study of voluntary possession and selling because of financial difficulties

Borrowers who cannot pay their mortgages leave homeownership either via compulsory possession; by handing back their property to their lender or abandoning it (together termed voluntary possession); by selling the property on the open market; or (less frequently) via a sale and rent back scheme. As the current housing market recession developed, voluntary possessions rose, and in 2009 they accounted for 26 per cent of all possessions. Voluntary possessions also rose in the 1990s recession.

Qualitative interviews were undertaken with 41 (ex) borrowers accessed via lenders, advice agencies and local authorities. Twelve contextual interviews were undertaken with lenders, advisors and a sale and lease back company and an analysis of data from the Survey of English Housing (SEH) provided information from a representative sample of borrowers who had left homeownership at some point in the past because of mortgage payment difficulties.

Relatively little is known about the drivers, experiences and outcomes for borrowers who have voluntarily given back their home or sold because of financial difficulties. To address this gap, Communities and Local Government commissioned qualitative research from the Centre for Housing Policy at the University of York to provide the borrowers' perspective on these issues.

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Research findings

The SEH (2005-08) indicated that an annual average stock of 381,000 households in England contained someone who had in the past experienced voluntary possession (80,000) or compulsory possession (55,000) or sold to alleviate financial pressures (246,000). The SEH notes the *current* characteristics of households who had one of these experiences in the past. There are some differences between those who give up homeownership in these different ways but, overall, they have broadly similar characteristics. There are, however, marked differences between these households and mortgagor households with no experience of losing a home.

The qualitative study showed that the majority of those giving voluntary possession or selling had relatively marginal financial positions when they took their mortgage, although most did not perceive their position as such. Only a minority believed they had borrowed too much. Further borrowing then followed rapidly, sometimes for lifestyle purchases but in a significant minority of cases to manage tight budgets. This further borrowing preceded the event that triggered arrears. Households giving voluntary possession or selling had similar patterns of secured and unsecured debts.

The key reasons for arrears were reduced earnings from employment, failed self employment and/or relationship breakdown. The largest group of borrowers experienced both unemployment and relationship breakdown. Relationship breakdown left many couples with their income intact, but decreased their commitment to paying for the shared home not least as additional accommodation had also to be funded.

Those giving voluntary possession and those who sold followed similar pathways to try and resolve their arrears. A small minority made a rapid decision to exit the sector, but for most it was a 'creeping decision' that emerged as potential recovery strategies failed. These households sought to reduce expenditure and increase income. Many tried to manage their debts by borrowing further, by looking for additional or alternative employment, and a significant minority tried to sell their property, but most failed due to market constraints. The majority had no option to sell because of their negative equity.

Household respondents and lenders had different perceptions about the extent of contact between them and lenders often doubted households' serious engagement in the arrears recovery process at an early stage. Most households had made contact with their lender but where forbearance was offered they typically perceived it as beyond their financial means, too short

term, or too limited to be a realistic option, and contact dwindled to an administrative process. In some cases advisors or lenders suggested selling or voluntary possession where they viewed the situation as unrecoverable.

A majority of household respondents were not eligible for help from the state safety-net, Support for Mortgage Interest, (SMI) as many households who had lost income still had one person in employment, or were self-employed and had difficulty meeting the criteria for support. Where relationship breakdown was the key driver of arrears there was no eligibility for SMI as typically borrowers did not experience a loss of income (but increased costs). However, while those in receipt of SMI could address their mortgage arrears, additional, unresolved secured and unsecured debts remained a pressure to leave the sector. Only one household had private payment protection insurance.

Overall, three, often inter-related, factors accounted for the failure of borrowers to manage arrears: the extent of borrowing over and above the mortgage (which both increased the number of creditors borrowers had to manage and constrained the prospects for any holistic debt management process); a loss of income that was 'final' and in the case of relationship breakdown the wish to avoid the responsibility for joint debts; and the failure to make or sustain forbearance arrangements

A third of households had been subject to court proceedings and the remainder knew that court action could be instituted at any time. Avoiding eviction was one reason why respondents opted to hand the keys back. Other drivers of voluntary, as opposed to compulsory, possession were insolvency provisions and the availability of alternative housing.

Over two thirds of households interviewed who gave voluntary possession were households where one or more person was, or was in the process of being declared bankrupt or had an Individual Voluntary Arrangement (IVA). Bankruptcy could trigger voluntary possession (where one partner was declared bankrupt, the second partner might also take this step and hand the house back), but was also a consequence of voluntary possession. Here (ex) borrowers with little income and other debts could file for bankruptcy whereby the responsibility for the shortfall debt was transferred to the bankruptcy settlement (and after a time written off).

Few giving voluntary possession cleared their outstanding mortgage, and most had remaining second charge or unsecured debts. Those who sold usually cleared their mortgage but often not other secured loans. The majority of households moved initially into the private rented sector. Some households secured accommodation from local authorities under the homelessness legislation but there were other households who might well have been

considered unintentionally homeless but who believed they would not be considered as such. There was some uncertainty amongst advisors as to how well local authorities were following the new supplementary guidance on intentional homelessness.

Those giving voluntary possession and selling to address financial problems found the process extremely stressful and often experienced ill health. Avoidance of further stress also contributed to the decision to give voluntary possession.

Compared to the 1990s, many of the reasons for, and experiences of, those giving voluntary possession or selling voluntarily are unchanged. There are, however, two key structural differences. First, the changed mortgage and credit market offered new entry products (for example, an initial mortgage loan in association with an unsecured loan); the growth of sub-prime lending facilitated entry to more marginal borrowers; and second-charge lending and borrowing became extensive. Second, wider use of the insolvency framework since the mid-1990s has resulted in the role of bankruptcy being more significant in explanations of voluntary possession than was the case in the 1990s. This clearly interacts with the increased availability of credit.

Policy considerations

The research raises questions about the framework that informs current policy:

- the assumption that the current categorisations of possessions (and voluntary sale) reflect distinct motivations and behaviours
- as a consequence, the use of the categories as the basis for determining access to resources or policy initiatives
- a policy focus solely on preventing possessions.

The research suggests a number of further actions that might help minimise voluntary possessions and/or support the sale process:

- two key drivers of voluntary possession and sale are failed self-employment and relationship breakdown. Neither is addressed adequately by the current public and private safety-nets (although it is the case that following relationship breakdown, should one partner remain in the home with dependent children they may be eligible for SMI). The development of an effective safety-net that provides support in the event of a loss of income for a wider range of reasons would reduce the number of possessions

- borrowers can be slow to seek professional advice and can be poorly informed about potential options. Borrowers often took the least helpful or wrong actions because they acted in isolation and without good information. Publicity and communication initiatives remain important and need to be bolstered
- the research showed that borrowers could face delays in accessing advice. Further, increasingly lenders look to the advice sector for confirmation of whether, and what, recovery might be achieved. The clear implication is that the role of the advice sector has much further to run and that additional resources and training are required
- lenders should consider the widest range of forbearance approaches and provide forbearance that is affordable. There are implications for policy makers and the regulator about how to encourage more lenders to offer what are increasingly referred to as 'loan modifications' at an earlier stage rather than after failed early 'payment plus' approaches
- mortgage arrears are increasingly one component of multiple debts. To prevent possessions (voluntary and compulsory) there needs to be an agreed, enforceable, routine and holistic approach to debt recovery that precedes the legal remedies of IVA or bankruptcy
- policy makers and lenders should consider actively supporting voluntary possession rather than compulsory possession where exit from the sector is inevitable.

Further information

The findings and recommendations both in this summary and the main report are those of the contractors and do not necessarily represent those of the Department for Communities and Local Government.

The main report, based on this research, *Giving up home ownership – A qualitative study of voluntary possession and selling because of financial difficulties*, is available at:

www.communities.gov.uk/corporate/researchandstatistics/research1/researchpublications

Department for Communities and Local Government
Eland House
Bressenden Place
London
SW1E 5DU
Telephone: 020 7944 4400
Website: www.communities.gov.uk

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